

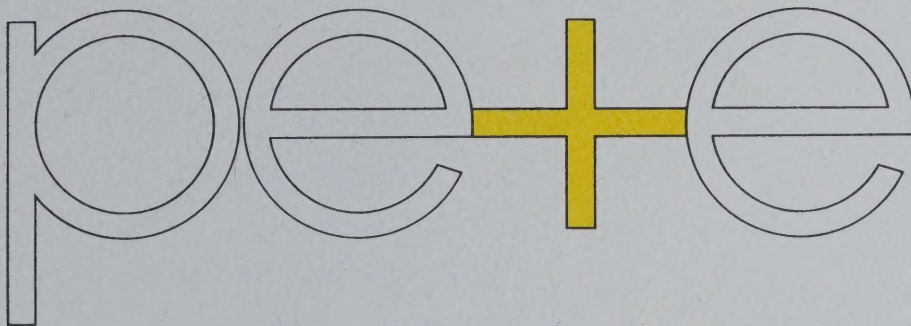


Photo Engravers & Electrotypers Limited

1979 Annual Report

743-8920

pete

D. S. PORTER

VICE-PRESIDENT FINANCE
AND
SECRETARY-TREASURER
PHOTO ENGRAVERS &
ELECTROTYPERS LIMITED

2250 ISLINGTON AVENUE
REXDALE, ONTARIO
M9W 3W4

Directors and Officers

J. R. SHAW, *President*

JAMES M. TORY, Q.C.,
Vice-President

ALEX CAMPBELL

JOHN S. DINNICK

GORDON R. GILLIES

DOUGLAS J. PEACHER

M. J. STEEVES, P.Eng.,
Vice-President, Manufacturing

D. S. PORTER, C.A.,
*Vice-President, Finance &
Secretary-Treasurer*

AUDITORS, *Clarkson Gordon*

SOLICITORS, *Tory, Tory,
DesLauriers & Binnington*

BANKER, *The Bank of Nova Scotia*

TRANSFER AGENT,
National Trust Company, Limited

REGISTRAR, *Crown Trust Company*

HEAD OFFICE and PLANT,
*2250 Islington Ave.,
Rexdale, Ontario M9W 3W4*

Photo Engravers & Electrotypers Limited

Financial Highlights

	1979	1978
Earnings		
Sales.....	\$21,112,226	\$18,071,291
Depreciation.....	795,156	740,609
Income taxes.....	853,000	682,000
Net earnings.....	1,240,965	1,022,954
Net earnings per share.....	6.51	5.58
Dividends paid.....	505,222	429,166
Dividends paid per share.....	2.65	2.36

Balance Sheet

Additions to fixed assets.....	\$ 7,956,592	\$ 2,893,629
Shareholders' equity.....	8,271,542	7,535,799
Shareholders' equity per share.....	43.39	39.53

Directors' Report

Your directors are pleased to submit the annual report of the Company for 1979, together with the financial statements and accompanying auditors' report.

SALES AND EARNINGS

In 1979, sales amounted to \$21,112,226 compared with \$18,071,291 in 1978. After meeting all charges, including a provision of \$795,156 for depreciation of plant and equipment, and a provision of \$853,000 for income taxes, there remained earnings of \$1,240,965 or \$6.51 per share compared with \$1,022,954 or \$5.58 per share for the previous year.

DIVIDENDS

Quarterly dividends of 65 cents per share were paid March 1, June 1 and September 1, 1979 while a quarterly dividend of 70 cents per share was paid December 1, 1979, making a total distribution to shareholders of \$2.65 per share or \$505,222 for the year compared with a total payment of \$2.36 per share or \$429,166 in 1978. Your directors again declared a dividend of 70 cents per share for the first quarter of 1980.

PLANT EXPANSION AND FINANCING ARRANGEMENTS

Our current expansion programme for the purchase of additional printing press equipment and an extension to the present building was previously estimated to cost approximately \$11,500,000 plus interest. However, contracts for this programme are now virtually all let with completion expected by mid-1980 and we estimate the final cost to be approximately \$12,250,000 plus interest on funds borrowed.

At December 31, 1979 commitments under this programme amounted to \$11,415,000 of which \$10,661,000 had been expended to that date.

A line of credit has been arranged with the Company's Banker to provide funds not available from operations for this programme. At December 31, 1979 approximately \$6,600,000 of this line of credit had been utilized.

EARNINGS EMPLOYED IN THE BUSINESS

As at December 31, 1979 earnings employed in the business amounted to \$7,077,813 compared to \$6,342,070 last year.

SHAREHOLDERS' EQUITY

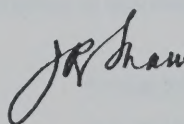
Total shareholders' equity amounted to \$8,271,542 equal to \$43.39 per share, compared with \$7,535,799 or \$39.53 per share a year ago.

OUTLOOK

With a great many new presses coming on stream in the next two years, we expect the North American market to become extremely competitive. Plants with old equipment and practices will suffer. However, our expansion and modernization plans should enable us to remain competitive.

We extend sincere appreciation to our employees who contributed so much to the high standards of quality and service to our customers.

On behalf of the Board,



President.

Toronto, Canada
January 29, 1980.

Photo Engravers & Electrotypers Limited

(Incorporated under the Canada Corporations Act)

Balance Sheet

December 31, 1979

(with comparative figures as at December 31, 1978)

ASSETS		1979	1978
Current :			
Cash.....	\$	39,457	\$ 36,263
Accounts receivable.....		350,086	417,199
Income taxes recoverable.....		578,067	60,439
Inventories (note 2).....		1,973,626	1,283,536
		<u>2,941,236</u>	<u>1,797,437</u>
Fixed – at cost :			
Land and roadways.....		171,963	171,963
Buildings.....		4,611,941	4,573,488
Machinery and equipment.....		11,989,717	11,887,027
		<u>16,773,621</u>	<u>16,632,478</u>
Less accumulated depreciation.....		9,378,260	8,917,032
		<u>7,395,361</u>	<u>7,715,446</u>
Expansion programme in progress (note 3).....		10,176,667	2,845,652
		<u>17,572,028</u>	<u>10,561,098</u>
Non-current :			
Notes due under Employees' Stock Purchase Plans (note 5).....		249,936	291,159
		<u>\$20,763,200</u>	<u>\$12,649,694</u>

On behalf of the Board :

J. R. SHAW, Director

J. M. TORY, Director

(See accompanying notes to financial statements)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1979	1978
Current:		
Accounts payable and accrued charges.....	\$ 1,096,237	\$ 910,407
Accounts payable for expansion programme.....	1,306,274	466,235
Sales and withholding taxes payable.....	380,875	403,843
	<u>2,783,386</u>	<u>1,780,485</u>
Term bank loans (note 4).....	6,616,272	991,410
Deferred income taxes.....	3,092,000	2,342,000
	<u>12,491,658</u>	<u>5,113,895</u>
Shareholders' equity:		
Capital stock –		
Authorized:		
250,000 shares, no par value		
Issued:		
190,650 shares.....	1,193,729	1,193,729
Earnings employed in the business.....	7,077,813	6,342,070
	<u>8,271,542</u>	<u>7,535,799</u>
	<u>\$20,763,200</u>	<u>\$12,649,694</u>

Auditors' Report

To the Shareholders of
Photo Engravers & Electrotypes Limited:

We have examined the balance sheet of Photo Engravers & Electrotypes Limited as at December 31, 1979 and the statements of earnings and earnings employed in the business and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
January 14, 1980.

CLARKSON GORDON
Chartered Accountants

Photo Engravers & Electrotypers Limited

Statement of Earnings and Earnings Employed in the Business

Year ended December 31, 1979
(with comparative figures for the year 1978)

	1979	1978
Sales (Note 7)	\$21,112,226	\$18,071,291
Cost of sales and all expenses, except the items noted below	17,344,618	14,947,506
Administrative and general expenses	767,966	654,269
Provision for depreciation	795,156	740,609
Interest expense on current bank loan (note 4)	110,521	23,953
	<u>19,018,261</u>	<u>16,366,337</u>
Earnings before provision for income taxes	2,093,965	1,704,954
Provision for income taxes (note 8)	853,000	682,000
Earnings for the year*	1,240,965	1,022,954
Earnings employed in the business, beginning of year	6,342,070	5,748,282
	7,583,035	6,771,236
Less dividends paid (1979 — \$2.65 per share; 1978 — \$2.36 per share)	505,222	429,166
Earnings employed in the business, end of year	<u>\$ 7,077,813</u>	<u>\$ 6,342,070</u>
* Earnings per share	<u>\$6.51</u>	<u>\$5.58</u>

(See accompanying notes to financial statements)

Photo Engravers & Electrotypers Limited

Statement of Changes in Financial Position

Year ended December 31, 1979

(with comparative figures for the year 1978)

	1979	1978
Working capital was provided by:		
Operations*	\$2,921,174	\$1,763,563
Proceeds from sale of fixed assets	15,454	164
Payment of notes due under Employees' Stock Purchase Plans	41,222	40,860
Increase in term bank loans	5,624,862	991,410
	<u>8,602,712</u>	<u>2,795,997</u>
Working capital was used for:		
Additions to fixed assets (net of investment tax credits of \$709,267 in 1979; \$75,741 in 1978)	7,956,592	2,893,629
Dividends	505,222	429,166
	<u>8,461,814</u>	<u>3,322,795</u>
Increase (decrease) in working capital	140,898	(526,798)
Working capital, beginning of year	16,952	543,750
Working capital, end of year	<u>\$ 157,850</u>	<u>\$ 16,952</u>
Changes in components of working capital:		
Increase (decrease) in current assets –		
Cash	\$ 3,194	\$ (427,042)
Accounts receivable and other assets	(67,113)	(116,468)
Income taxes recoverable	517,628	60,439
Inventories	690,090	33,409
	<u>1,143,799</u>	<u>(449,662)</u>
Increase (decrease) in current liabilities –		
Accounts payable and accrued charges	185,830	51,199
Accounts payable for expansion programme	840,039	466,235
Sales and withholding taxes payable	(22,968)	(440,298)
	<u>1,002,901</u>	<u>77,136</u>
Increase (decrease) in working capital	<u>\$ 140,898</u>	<u>\$ (526,798)</u>

*Net earnings adjusted for charges or credits which do not affect working capital.

(See accompanying notes to financial statements)

Notes to Financial Statements

December 31, 1979

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Company have been prepared by management in accordance with generally accepted accounting principles consistently applied. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Inventories –

Inventories of work in process are valued at the lower of cost, less progress advances received, and net realizable value. Other inventories are valued at the lower of cost, applied on a first-in, first-out basis, and market value determined on the basis of replacement cost.

Depreciation –

Charges are made against earnings for depreciation of investment in buildings, machinery and equipment based on the estimated remaining useful lives of the assets using the straight-line method. The rates of depreciation are generally 2½% for building and roadways and 6% for machinery and equipment, except certain designated electronic equipment which is depreciated at a rate of 20%.

Income taxes –

The Company provides for income taxes on the tax allocation basis whereby the provision for income taxes each year is computed on the basis of the depreciation and other charges reflected in the statement of earnings rather than the related amounts claimed as deductions in the Company's tax return.

2. INVENTORIES

Inventories consist of the following:

	1979	1978
Work in process (less progress advances of \$2,519,000 in 1979 and \$2,190,000 in 1978)	\$1,536,900	\$1,015,729
Other materials and supplies	436,726	267,807
	<u>\$1,973,626</u>	<u>\$1,283,536</u>

3. EXPANSION PROGRAMME

In October 1977, the directors authorized an expansion programme which includes the purchase of additional press equipment and the expansion of the present building. This expansion programme is estimated to cost approximately \$12,250,000 and is expected to be completed by mid-1980. At December 31, 1979, commitments under this programme amounted to \$11,415,000 of which \$10,661,000 had been expended to that date (\$10,176,667 net of investment tax credits).

A line of credit has been arranged with the bank to provide funds not available from operations to meet these expenditures (note 4).

4. TERM BANK LOANS

The term bank loans for the expansion programme bear interest at varying rates not expected in aggregate to exceed the commercial bank prime rate by more than one percentage point and are payable over four years commencing in 1981. These loans are evidenced by bankers' acceptances and demand notes and the Company has undertaken not to pledge or otherwise encumber any of its assets while any portion of the loans is outstanding. During construction the interest on this debt (\$415,007 in 1979 and \$19,922 in 1978) has been added to the cost of the expansion programme. To December 31, 1979, the Company has

capitalized \$434,929 in interest with respect to the expansion.

5. EMPLOYEES' STOCK PURCHASE PLANS

In prior years, officers and senior management of the Company, one of whom is a full-time salaried director, subscribed for and purchased shares of the Company under Employees' Stock Purchase Plans. The shares were issued at the current market price on the day prior to the subscription date. Consideration was received in the form of promissory notes which are non-interest bearing and are secured by a pledge of shares of the Company. The notes are due in equal annual instalments over ten years from the date of issue.

At December 31, 1979 the notes outstanding amounted to \$290,433 (\$332,019 in 1978) of which the portion due within one year (\$40,497 in 1979; \$40,860 in 1978) is included with accounts receivable.

6. PENSION PLANS

The majority of the Company's employees are covered by retirement plans. The amount charged to income in 1979 (including amounts paid to the government pension plan) was \$273,600 (\$265,700 in 1978), which amounts included amortization of prior service costs. Based on an actuarial valuation as at December 31, 1977, the unfunded prior service pension costs at December 31, 1979 were estimated to total \$205,000 (\$217,000 in 1978) (approximately equal to the value of the unfunded vested benefits at that date) and these will be charged to operations on a straight-line basis over the next thirteen years.

7. SALES TO MAJOR CUSTOMER

Approximately three-quarters of the Company's sales are made to an associated company, Simpsons-Sears Limited, pursuant to a long-term contract extending through 1983.

Photo Engravers & Electrotypers Limited

8. INCOME TAXES

The provision for income taxes consists of :

	1979	1978
Current	\$ (682,000)	\$682,000
Deferred	1,535,000	
	<u>\$ 853,000</u>	<u>\$682,000</u>

The 1979 provision reflects a reduction of \$44,800 for the 3% inventory allowance (\$41,800 in 1978).

In 1979, depreciation and other costs claimed for tax purposes resulted in a

taxable loss. This loss was carried back to offset the taxable income previously filed for 1978. As a result, current income taxes paid in respect of 1978 are recoverable and the amount provided in that year is deferred.

As well, investment tax credits amounting to \$785,000, which have been recorded as a reduction in the cost of fixed asset additions, are available to reduce income taxes payable. Since the Company currently does not have taxes payable, these credits, which expire by 1984, are

reflected in the balance sheet as a reduction of deferred income taxes.

9. REMUNERATION OF DIRECTORS AND OFFICERS

The aggregate remuneration in 1979 of the Company's six directors, as directors, was \$13,200 (\$5,200 in 1978). The aggregate remuneration in 1979 of the Company's four officers, as officers, was \$200,400 (\$153,600 in 1978). Two directors were also officers of the Company during 1979.

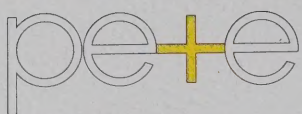
Ten years' review

EARNINGS

Year	Sales	Provision for Depreciation	Earnings Before Income Taxes	Net Earnings	Net Earnings Per Share	Dividends Per Share
1970	\$ 8,228,668	\$486,597	\$ 690,195	\$ 327,195	\$1.87	\$.92
1971	8,461,994	504,362	834,293	422,793	2.35	.97
1972	8,748,533	507,528	849,639	443,639	2.44	1.12
1973	10,335,867	533,012	1,026,926	587,926	3.23	1.20
1974	13,953,318	642,619	1,398,973	815,973	4.49	1.60
1975	14,333,811	649,901	1,435,793	840,793	4.62	2.00
1976	14,150,930	625,006	1,284,674	745,674	4.10	2.04
1977	17,385,899	745,626	1,639,577	994,577	5.47	2.19
1978	18,071,291	740,609	1,704,954	1,022,954	5.58	2.36
1979	21,112,226	795,156	2,093,965	1,240,965	6.51	2.65

BALANCE SHEET

Year	Working Capital (Deficiency)	Plant and Equipment at Cost	Plant and Equipment After Depreciation	Term Bank Loans	Shareholders' Equity	Shareholders' Equity Per Share
1970	\$(991,492)	\$12,068,972	\$ 7,435,020	\$1,410,000	\$3,699,008	\$21.14
1971	(859,653)	12,261,782	7,131,953	920,000	4,060,007	22.33
1972	(479,522)	12,800,280	7,172,788	1,000,000	4,299,974	23.65
1973	(954,589)	14,710,330	9,042,960	1,650,000	4,669,680	25.68
1974	(212,940)	14,911,097	8,631,722	1,150,000	5,194,693	28.57
1975	(332,493)	15,754,564	8,837,582	650,000	5,671,786	31.19
1976	(201,506)	16,233,412	8,730,234	150,000	6,046,486	33.25
1977	543,750	16,608,104	8,408,243		6,642,811	36.53
1978	16,952	19,478,130	10,561,098	991,410	7,535,799	39.53
1979	157,850	26,950,288	17,572,028	6,616,272	8,271,542	43.39



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